



# PHBS

北京大学汇丰商学院



## ECON540 Public Finance Module 2, 2020-2021

### Course Information

---

**Instructor: Insook Lee**

Office: PHBS Building, Room 665

Phone: +86-755-2603- 2293

Email: islee@phbs.pku.edu.cn

Office Hour: Tuesday 10:30 am -12:20 pm or by appointment

**Teaching Assistant: TBA**

Email: TBA

Office Hour: TBA

**Classes:**

Lectures: Tuesday & Friday 15:30 -17:20

Venue: PHBS Building, TBA

### 1. Course Description

#### 1.1 What is this course about?

Public finance mainly addresses tax policy of the government since tax revenues finance public expenditures. This course aims to present the students with rigorous analytical frameworks for taxation. This course begins with providing economic analysis for taxation itself which takes a balance between equity and efficiency. In particular, it discusses the important key results of public finance field on fundamental normative economic analyses of direct income taxation and indirect taxation. In addition, this course also provides positive economic analysis of taxation with discussion on political economics of taxation. With regard to dynamic unfolding of taxation, economic analysis of government debt is also presented by this course.

**Prerequisite course:** Microeconomics and Macroeconomics

#### 1.2 Textbooks and Reading Materials

Main Textbook

No main text book, mainly following reading list.

Supplementary Textbook

Richard Tresch “Public Finance: A Normative Theory” 3rd edition, Academic Press.

Readings

# Rationale of Taxation

Chapter 1 & Chapter 2 & Chapter 5 & Chapter 6 of supplementary textbook

# Labor Income Taxation

Mankiw, N. Gregory, Matthew Weinzierl, and Danny Yagan. (2009) “Optimal Taxation in Theory and Practice.” *Journal of Economic Perspectives*, 23(4): 147-174.

Werning, Ivan. (2007) “Optimal Fiscal Policy with Redistribution.” *Quarterly Journal of*

*Economics*, 122(3): 925-967.

Mirrlees, James A. (1971) "An Exploration in the Theory of Optimum Income Taxation." *Review of Economic Studies*, 38(2): 175-208.

Diamond, Peter A. (1998) "Optimal Income Taxation: An Example with a U-shaped Pattern of Optimal Marginal Tax Rates." *American Economic Review*, 88(1): 83-95.

Atkinson, Anthony Barnes, and Joseph E. Stiglitz. (1976) "The Design of Tax Structure: Direct versus Indirect Taxation." *Journal of Public Economics*, 6(1-2): 55-75.

Heathcote, Jonathan, Kjetil Storesletten, and Giovanni L. Violante. (2017) "Optimal Tax Progressivity: An Analytical Framework." *Quarterly Journal of Economics*, 132(4): 1693-1754.

#### # Capital Income Taxation

Straub, Ludwig, and Iván Werning. (2020) "Positive Long-Run Capital Taxation: Chamley-Judd Revisited." *American Economic Review*, 110 (1): 86-119.

Farhi, Emmanuel, and Ivan Werning. (2012) "Capital Taxation: Quantitative Explorations of the Inverse Euler Equation." *Journal of Political Economy*, 120(3): 398-445.

Mikhail Golosov, Aleh Tsyvinski, Ivan Werning. (2006) "New Dynamic Public Finance: A User's Guide." *NBER Macroeconomics Annual*, 21: 317-388.

Conesa, Juan Carlos, Sagiri Kitao, and Dirk Krueger. (2009) "Taxing Capital? Not a Bad Idea after All!" *American Economic Review*, 99(1): 25-48.

Judd, Kenneth L. (1985) "Redistributive Taxation in a Simple Perfect Foresight Model." *Journal of Public Economics*, 28(1): 59-83.

Chamley, Christophe. (1986) "Optimal Taxation of Capital Income in General Equilibrium with Infinite Lives." *Econometrica*, 54(3): 607-622.

Gottardi, Piero, Atsushi Kajii, and Tomoyuki Nakajima. (2015) "Optimal Taxation and Debt with Uninsurable Risks to Human Capital Accumulation." *American Economic Review*, 105(11): 3443-70.

Zhu, Xiaodong. (1992) "Optimal Fiscal Policy in a Stochastic Growth Model." *Journal of Economic Theory*, 58(2): 250-289.

Aiyagari, S. Rao. (1995) "Optimal Capital Income Taxation with Incomplete Markets, Borrowing Constraints, and Constant Discounting." *Journal of Political Economy*, 103(6): 1158-1175.

#### # Indirect Taxation (Commodity Taxation)

Odd E. Nygard and John T. Revesz. (2016). "A Literature Review on Optimal Indirect Taxation and the Uniformity Debate." *Review of Public Economics*, 218(3): 107-140.

Cremer, Helmuth, Pierre Pestieau, and Jean-Charles Rochet. (2001) "Direct versus Indirect Taxation: the Design of the Tax Structure Revisited." *International Economic Review*, 42(3): 781-800.

Auerbach, Alan. J. (1985), "The Theory of Excess Burden and Optimal Taxation", in A. J. Auerbach and M. Feldstein, (ed.), *Handbook of Public Economics*, Amsterdam: North-Holland, 61-127.

Guerreiro, Joao, Sergio Rebelo, and Pedro Teles. (2018) "Should Robots be Taxed?" *NBER Working Paper* No. 23806.

#### # Political Economics of Taxation

Man, Priscilla T. Y. and Shino Takayama (2013) "A Unifying Impossibility Theorem." *Economic Theory*, 54: 249-271

Acemoglu, Daron, Mikhail Golosov, and Aleh Tsyvinski. (2011) "Political Economy of Ramsey

Taxation.” *Journal of Public Economics*, 95(7-8): 467-475.

Bierbrauer, Felix J., and Pierre C. Boyer. (2013) “Political Competition and Mirrleesian Income Taxation: A First Pass.” *Journal of Public Economics*, 103: 1-14.

Buchanan, J. M., and Faith, R. L. (1987) “Secession and the Limits of Taxation: Toward a Theory of Internal Exit,” *American Economic Review*, 77: 1023-1031.

Lindbeck, A and Weibull J. (1987) “Balance-budget Redistribution as the Outcome of Political Competition,” *Public Choice*, 52: 273-297

Tabellini, Guido. (1991) “The Politics of Intergenerational Redistribution.” *Journal of Political Economy*, 99(2): 335-357.

#### # Tax Evasion

Slemrod, Joel. (2007) “Cheating Ourselves: the Economics of Tax Evasion.” *Journal of Economic Perspectives*, 21: 25-48.

Allingham, Michael, and Agnar Sandmo. (1972) “Income Tax Evasion: A Theoretical Analysis.” *Journal of Public Economics*, 1(3): 323-338.

Mookherjee, Dilip, and Ivan Png. (1989) “Optimal Auditing, Insurance, and Redistribution.” *Quarterly Journal of Economics*, 104: 399-415.

#### # Government Debt

Alesina, Alberto, and Guido Tabellini (1990) “A Positive Theory of Fiscal Deficits and Government Debt.” *Review of Economic Studies*, 57: 403-414.

Alesina, Alberto, Filipe R. Campante, and Guido Tabellini (2008). “Why is Fiscal Policy Often Procyclical?” *Journal of The European Economic Association*, 6(5): 1006-1036.

Barseghyan, Levon, Marco Battaglini, and Stephen Coate (2013) “Fiscal Policy over the Real Business Cycle: A Positive Theory.” *Journal of Economic Theory*, 148: 2223-2265.

Battaglini, Marco, and Stephen Coate (2008a) “A Dynamic Theory of Public Spending, Taxation, and Debt.” *American Economic Review*, 98: 201-236.

Battaglini, Marco, and Stephen Coate (2008b) “The Political Economy of Fiscal Policy.” *Journal of the European Economic Association*, 6: 367-380.

Song, Zheng, Kjetil Storesletten, and Fabrizio Zilibotti (2012). “Rotten Parents and Disciplined Children: A Politico-economic Theory of Public Expenditure and Debt,” *Econometrica*, 80(6), pp.2785-2803.

#### # Growth Effects of Taxes (Optional)

Barro, Robert. (1990) “Government Spending in a Simple Model of Endogeneous Growth.” *Journal of Political Economy*, 98(5): S103-S125.

Mendoza, Enrique G., Gian Maria Milesi-Ferretti, and Patrick Asea. (1997) “On the Ineffectiveness of Tax Policy in Altering Long-run Growth: Harberger's Superneutrality Conjecture.” *Journal of Public Economics*, 66(1): 99-126.

Arnold, Jens. (2008). “Do Tax Structures Affect Aggregate Economic Growth? :Empirical Evidence form a Panel of OECD Countries” *OECD Working Papers No.643*.

## 2. Learning Outcomes

### 2.1 Intended Learning Outcomes

Learning Goals	Objectives
----------------	------------

1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.
	2.2. Students will be able to apply leadership theories and related skills.
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.
	3.2. Our students will practice ethics in the duration of the program.
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.
	5.2. Our students will be prepared to face problems in various business settings and find solutions.
	5.3. Our students will demonstrate competency in critical thinking.

## **2.2 Course specific objectives**

### **2.3 Assessment/Grading Details**

<b>Assessment task</b>	<b>Weighting</b>	<b>Due date</b>
Class participation (attendance)/attitude	10%	Every class
Problem sets	30%	TBA
Exam	35%	January 6th
Presentation (Team Project)	25%	Last week of the class
Total	100%	

Two problem sets will be assigned (before and after the exam). The first problem set weighs 15% and the second problem set does 15%. Submission after the announced deadline is graded as zero, as a way of assessing the learning goal 3. The first problem set will be assigned as homework. The second problem set can be either homework or replaced with in class quiz instead of solving in home.

Exam will be held at the 6th January in the class (15:30-17:20) as a way of assessing the learning goal 5. This will be a closed-book exam and any digital devices are not allowed to be used during the exam. For the sake of fair grading by testing with the exactly equal written exam (which weighs most among others) under the same environment, no exception for the examination date is allowed. If you have a time conflict with this midterm exam schedule, not-taking this course is strongly recommended.

Presentation (Team Project):

Instead of taking a final exam, how well you understand overall class materials will also be tested by a team project on an application of what is discussed in the class via 30 minutes' presentation in the last week of the 4th module. This is for assessing the learning goals 1, 2, and 4. At most, by the 8th of December, each team should be formed and list of team members should be submitted.

As long as relevant to the course, each team is free to choose the topic of the presentation. Examples are abundant such as (i) analysing corporate tax regulations of various countries located over the One Belt, One Road (一帶一路), (ii) a case study on effects of the recent VAT tax reform in China and the like.

By the 31st Tuesday of December, short proposal of the presentation (up to seven pages) is to be submitted. The presentation has to have clear research question, concrete research method, and accurate sources (citation). The outcome should be original not copy other's work. As a penalty for plagiarism, both the grade for team project (25%) and the grade for class participation (10%) will be zero, as a way of assessing the learning goal 3. By the same reason, as a penalty for cheating during the midterm exam, both the grade for midterm exam (35%) and the grade of class participation (10%) will be zero. Both misconducts will be reported to the PHBS Discipline Committee.

At the presentation in the last week of this module, each team should submit both the presentation slide (submission of the term paper is optional) and detailed document about each student's contribution (which part you did for presentation) for the sake of fair grading. Moreover, every member of each team should take part in presenting the team project outcome.

## **2.4 Academic Honesty and Plagiarism**

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar. For more information of plagiarism, please refer to *PHBS Student Handbook*.

## **3. Topics & Teaching Schedule**

<b>Schedule</b>	<b>Topics</b>	<b>Lectures</b>
<b>1.</b>	Introduction of the Course	Logistics, scope and aim of the course; overview of the course roadmap,
<b>2 – 3.</b>	Rationale for Taxation	Why does the government impose tax? (The goals and legitimate functions of government interventions are financed by taxation) ® Chapter 1 & 2 & 5 & 6
<b>4 - 6.</b>	Labor Income Taxation	How should the government impose tax on labor income? Ramsey model and Mirrlees model, No distortion at the top ® Werning (2007), Diamond (1998)

<b>7 - 9.</b>	Capital Income Taxation	How should the government impose tax on capital gain income? Chamely-Judd result, Inverse Euler equation ® Zhu (1992), Mikhail et al. (2006)
<b>10 - 11.</b>	Indirect Taxation (Commodity Taxation)	How should the government design rates of indirect tax (e.g., sales tax, value added tax, excise tax)? ® Cremer et al. (2001), Auerbach (1985)
<b>12 - 13.</b>	Political Economics of Taxation	Without benevolent social planner, how tax rate would be determined by political process? median voter theorem, impossibility theorem ® Alesina et al. (2008), Mikhail et al. (2006)
<b>14- 15.</b>	Tax Evasion	Embracing the reality of imperfect tax enforcement, how do we analyze tax evasion behavior? ® Slemrod (2007), Mikhail et al. (2006)
<b>16- 17.</b>	Government Debt	Over time, how should the government issue debt? Tax smoothing, Intergenerational redistribution ® Alesina et al. (2008), Battaglini and Coate (2008a)
<b>18.</b>	Case studies (Applications): presentations	